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Sinco Pharmaceuticals Holdings Limited

兴科蓉医药控股有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 6833)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2024

FINANCIAL HIGHLIGHTS

- Revenue of the Group increased by 40.1% or RMB436.8 million to RMB1,526.9 million for the Reporting Period (six months ended 30 June 2023: RMB1,090.1 million), among which revenue from sales of pharmaceutical products increased by approximately RMB439.7 million, while revenue from medical beauty services decreased by RMB2.9 million.
- In line with the increase in the Group's revenue, the gross profit of the Group increased by RMB20.7 million to RMB173.2 million for the Reporting Period (six months ended 30 June 2023: RMB152.5 million), while the gross profit margin decreased from 14.0% to 11.3%, which was caused by the increase in the purchase cost due to the depreciation of the RMB against the US\$.
- During the Reporting Period, the net profit increased by approximately RMB4.3 million to RMB23.9 million (six months ended 30 June 2023: RMB19.6 million). Such increase was mainly due to the increase of the Group's gross profit as stated above.
- During the Reporting Period, net profit attributable to owners of the Company amounted to RMB23.9 million (six months ended June 2023: RMB19.6 million), representing an increase in net profit attributable to owners of the Company by RMB4.3 million.
- Basic and diluted earnings per share amounted to RMB1.17 cent for the Reporting Period (six months ended 30 June 2023: RMB0.965 cent).
- The Board resolved not to declare any interim dividend for the Reporting Period (six months ended 30 June 2023: Nil).

RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Sinco Pharmaceuticals Holdings Limited (the “**Company**”) hereby announces the unaudited interim condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2024 (the “**Reporting Period**”), together with the comparative figures for the six months ended 30 June 2023 and the comparative figures as at 31 December 2023.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2024

		For the six months ended 30 June	
		2024	2023
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	1,526,851	1,090,126
Cost of sales		<u>(1,353,639)</u>	<u>(937,580)</u>
Gross profit		173,212	152,546
Other income and gains	5	14,394	4,220
Selling and distribution expenses		(36,468)	(47,101)
Administrative expenses		(61,187)	(48,417)
Provision for impairment loss on trade receivables		(4,232)	(756)
Other expenses and losses		(8,605)	(9,020)
Changes in fair value on contingent consideration at fair value through profit or loss		(1,781)	(1,343)
Finance costs	6	<u>(7,339)</u>	<u>(7,360)</u>
PROFIT BEFORE TAX	7	67,994	42,769
Income tax expense	8	<u>(44,124)</u>	<u>(23,174)</u>

	For the six months ended 30 June	
	2024	2023
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY	23,870	19,595
Earnings per share attributable to owners of the Company:		
Basic and Diluted		
– For profit for the period (RMB)	10 RMB0.0117	RMB0.00965

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2024

		30 June 2024	31 December 2023
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		288,461	279,083
Investment property		6,049	6,139
Right-of-use assets		72,302	75,125
Other intangible assets		32,012	27,109
Goodwill		66,536	66,536
Deferred tax assets		4,901	3,403
Total non-current assets		470,261	457,395
CURRENT ASSETS			
Inventories		44,205	108,026
Trade and bills receivables	<i>11</i>	700,977	540,505
Prepayments, other receivables and other assets		173,251	126,804
Pledged deposits		148,651	220,026
Bank balances and cash		282,009	437,922
Total current assets		1,349,093	1,433,283
CURRENT LIABILITIES			
Trade and bills payables	<i>12</i>	722,146	866,585
Contract liabilities		25,652	40,456
Other payables and accruals		36,223	53,862
Bank borrowings		326,857	240,857
Tax payable		30,562	26,444
Lease liabilities		3,303	3,833
Total current liabilities		1,144,743	1,232,037
NET CURRENT ASSETS		204,350	201,246
Total assets less current liabilities		674,611	658,641

	30 June	31 December
	2024	2023
<i>Notes</i>	RMB'000	RMB'000
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Bank borrowings	472	886
Deferred tax liabilities	1,576	1,800
Contingent consideration at fair value through profit or loss	23,859	22,078
Lease liabilities	4,000	5,825
	<hr/>	<hr/>
Total non-current liabilities	29,907	30,589
	<hr/>	<hr/>
Net assets	644,704	628,052
	<hr/>	<hr/>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	164	164
Reserves	644,540	627,888
	<hr/>	<hr/>
Total equity	644,704	628,052
	<hr/>	<hr/>

NOTES TO INTERIM CONDENSED FINANCIAL INFORMATION

30 June 2024

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standards Board (the “IASB”) as well as the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than change in accounting policies resulting from application of amendments to International Financial Reporting Standards (“IFRSs”) of the IASB, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 31 December 2023.

Application of amendments to IFRSs

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2024 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current</i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants</i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>

The application of the amendments to IFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and products and has three (six months ended 30 June 2023: three) reportable operating segments as follows:

- (a) the sale of imported pharmaceutical products segment;
- (b) the research and manufacturing of aesthetic medicine segment; and
- (c) the medical beauty services segment.

Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that other income and gains, other expenses and losses, finance costs not related to lease and charges attributable to issue of letters of credit and corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, bank balances and cash and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude bank borrowings, deferred tax liabilities, tax payable and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2024 and 30 June 2023, respectively.

Six months ended 30 June 2024

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Research and manufacturing of aesthetic medicine <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue <i>(note 4)</i>				
Sales to external customers	1,515,758	–	11,093	<u>1,526,851</u>
Segment results	68,114	(2,917)	4,346	69,543
Reconciliation:				
Corporate and other unallocated expenses				(2,401)
Other income and gains				14,394
Other expenses and losses				(8,605)
Finance costs (other than interest on lease liabilities and finance charges attributable to issue of letters of credit)				<u>(4,937)</u>
Profit before tax				<u>67,994</u>

Six months ended 30 June 2023

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Research and manufacturing of aesthetic medicine <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue (note 4)				
Sales to external customers	1,076,097	–	14,029	<u>1,090,126</u>
Segment results	52,186	(3,197)	6,210	55,199
Reconciliation:				
Corporate and other unallocated expenses				(2,934)
Other income and gains				4,220
Other expenses and losses				(9,020)
Finance costs (other than interest on lease liabilities and finance charges attributable to issue of letters of credit)				<u>(4,696)</u>
Profit before tax				<u>42,769</u>

The following table presents information of assets and liabilities of the Group's operating segments as at 30 June 2024 and 31 December 2023.

As at 30 June 2024

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Research and manufacturing of aesthetic medicine <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment assets	1,173,719	106,480	83,594	1,363,793
Reconciliation:				
Corporate and other unallocated assets				20,000
Deferred tax assets				4,901
Bank balances and cash				282,009
Pledged deposits				<u>148,651</u>
Total assets				<u>1,819,354</u>
Segment liabilities	776,229	10,043	28,524	814,796
Reconciliation:				
Corporate and other unallocated liabilities				387
Bank borrowings				327,329
Tax payable				30,562
Deferred tax liabilities				<u>1,576</u>
Total liabilities				<u>1,174,650</u>

As at 31 December 2023

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Audited)	Research and manufacturing of aesthetic medicine <i>RMB'000</i> (Audited)	Medical beauty services <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Segment assets	1,045,836	97,101	85,600	1,228,537
Reconciliation:				
Corporate and other unallocated assets				790
Deferred tax assets				3,403
Bank balances and cash				437,922
Pledged deposits				220,026
Total assets				<u>1,890,678</u>
Segment liabilities	958,563	8,377	25,629	992,569
Reconciliation:				
Corporate and other unallocated liabilities				70
Bank borrowings				241,743
Tax payable				26,444
Deferred tax liabilities				1,800
Total liabilities				<u>1,262,626</u>

4. REVENUE

Disaggregated revenue information for revenue from contracts with customers

For the six months ended 30 June 2024

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services			
Sales of pharmaceutical products	1,515,758	–	1,515,758
Medical beauty services	–	11,093	11,093
Total revenue from contracts with customers	<u>1,515,758</u>	<u>11,093</u>	<u>1,526,851</u>

For the six months ended 30 June 2023

Segments	Sale of imported pharmaceutical products <i>RMB'000</i> (Unaudited)	Medical beauty services <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Types of goods or services			
Sales of pharmaceutical products	1,076,097	–	1,076,097
Medical beauty services	–	14,029	14,029
Total revenue from contracts with customers	<u>1,076,097</u>	<u>14,209</u>	<u>1,090,126</u>

Geographical market

All revenue from contracts with customers of the Group during the reporting period was attributable to customers located in Mainland China, the place of domicile of the Group's operating entities. The Group's non-current assets are all located in Mainland China.

Timing of revenue recognition

All revenue from contracts with customers of the Group for the reporting period is recognised when goods or services are transferred at a point in time.

Information about major customers

During the six months ended 30 June 2024, revenue from contracts with customers of approximately RMB257,142,000 (for the six months ended 30 June 2023: RMB204,155,000) was derived from a major customer and contributed to 10% or more of the total revenue of the Group during the six months ended 30 June 2024.

5. OTHER INCOME AND GAINS

An analysis of other income and gains is as follows:

	For the six months ended 30 June	
	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
Service income	7,160	2,718
Bank interest income	4,500	1,366
Government grants*	1,112	–
Rental income from investment property	293	97
Interest income from financial assets at fair value through profit or loss	–	3
Gain on disposal of property, plant and equipment	–	36
Others	1,329	–
	<u>14,394</u>	<u>4,220</u>

* There were no unfulfilled conditions or contingencies relating to the government grants.

6. FINANCE COSTS

	For the six months ended 30 June	
	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
Interest on lease liabilities	178	300
Finance charges attributable to issue of letters of credit	2,224	2,364
Interest on bank borrowings	4,937	4,696
	<u>7,339</u>	<u>7,360</u>

7. PROFIT BEFORE TAX

The Group's profit before tax was arrived at after charging:

	For the six months ended 30 June	
	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
Cost of inventories sold	1,349,568	932,718
Cost of services provided	4,071	4,862
Depreciation of property, plant and equipment	5,684	3,501
Depreciation of investment property	90	90
Depreciation of right-of-use assets	2,825	2,213
Amortisation of other intangible assets (included in administrative expenses)	1,512	1,499
Short-term lease payments	512	429

8. INCOME TAX EXPENSE

The major components of income tax expense are as follows:

	For the six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Current tax		
– Mainland China	25,979	18,963
– Hong Kong	165	–
– other jurisdiction	1,302	877
	<u>27,446</u>	<u>19,840</u>
Under/(over) provision in prior year		
– Mainland China	18,400	5,126
– Hong Kong	–	(1,042)
	<u>18,400</u>	<u>4,084</u>
Total current tax	<u>45,846</u>	<u>23,924</u>
Deferred tax	<u>(1,722)</u>	<u>(750)</u>
	<u>44,124</u>	<u>23,174</u>

9. DIVIDENDS

During the current interim period, a final dividend of HK\$0.39 cents per share in respect of the year ended 31 December 2023 (for the six months period ended 30 June 2023: HK\$0.98 cents per share in respect of the year ended 31 December 2022) was declared and paid to owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to HK\$8,000,000 (equivalents to RMB7,218,000) (for the six months period ended 30 June 2023: HK\$20,000,000 (equivalents to RMB18,112,000)).

Subsequent to the end of the current interim period, the directors of the Company have resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted earnings per share attributable to owners of the Company are based on the following data:

	For the six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Earnings		
Profit attributable to owners of the Company, used in the basic and diluted earnings per share calculation	<u>23,870</u>	<u>19,595</u>
	Number of shares	
	30 June 2024	30 June 2023
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic and diluted earnings per share calculation	<u>2,032,890,585</u>	<u>2,031,122,629</u>

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2024 in respect of a dilution as there is no potential ordinary shares in issue as at 30 June 2024.

11. TRADE AND BILLS RECEIVABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade receivables	705,853	549,596
Impairment	<u>(17,793)</u>	<u>(13,561)</u>
Trade receivables, net of impairment	688,060	536,035
Bills receivables*	<u>12,917</u>	<u>4,470</u>
	<u>700,977</u>	<u>540,505</u>

* Bills receivables as at 30 June 2024 and 31 December 2023 were classified as financial assets at fair value through profit or loss as they were held for endorsement or discounting.

As at 30 June 2024, trade receivables of RMB526,117,000 (31 December 2023: RMB425,629,000) were covered by letters of credit.

An ageing analysis of the trade receivables as at the end of the reporting periods, based on the date of revenue recognised and net of loss allowance, is as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 3 months	687,948	535,928
Over 3 months	112	107
	<u>688,060</u>	<u>536,035</u>

12. TRADE AND BILLS PAYABLES

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Trade payables	708,067	813,668
Bills payables	14,079	52,917
	<u>722,146</u>	<u>866,585</u>

An ageing analysis of the trade and bills payables based on the issuance date of the pharmaceuticals' inspection reports are as follows:

	30 June 2024 RMB'000 (Unaudited)	31 December 2023 RMB'000 (Audited)
Within 3 months	<u>722,146</u>	<u>866,585</u>

The Group's bills payables as at 30 June 2024 was secured by the pledge of certain of the Group's deposits amounting to RMB14,079,000 (2023: RMB52,917,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2024, the global economy was back on track to steady recovery, and industries have gradually stepped out of the shadow of the pandemic. However, the economic environment in Mainland China remained complicated and volatile, presenting new challenges and opportunities for the pharmaceutical industry. On the one hand, the growth of demand for pharmaceutical products has remained strong, especially in certain niche markets where the imbalance between supply and demand was still significant. On the other hand, the uncertainties of the domestic economic environment have exerted new pressure on the supply chain and market layout of pharmaceutical products.

During the Reporting Period, the semi-annual batch release volume of human albumin was 40.3 million bottles, representing a slight increase of 4.4% compared to the same period last year. The proportion of imported albumin and domestically produced albumin was 68.0% and 32.0%, respectively. It is worth noting that the release volume of domestically produced albumin remained basically stable and the growth in overall market supply was mainly attributable to imported albumin. With the continuous increase in the supply of imported albumin and the expanded production capacity of domestic manufacturers, we expect to see a significant growth of around 10-15% in the annual batch release volume for 2024.

During the Reporting Period, the sales revenue from pharmaceutical products was RMB1,515.8 million, showing an increase of approximately RMB439.7 million compared to the same period last year, with an increase of 40.9%. Meanwhile, medical beauty services of the Group generated an income of approximately RMB11.1 million. During the Reporting Period, the Group achieved a gross profit of RMB173.2 million, which was an increase of RMB20.7 million compared to the gross profit of RMB152.5 million in the same period last year, representing an increase of 13.6%. The increase in gross profit was primarily attributable to the continued increase of the sales volume.

Despite facing challenges from exchange rate fluctuations, the Group remains committed to high-quality operations, maintains a keen market insight, and responds to market changes with prudent financial controls and diversified strategic layouts. The Group will continue to strengthen market expansion, optimize product structures, enhance customer satisfaction, and actively implement effective measures to reduce costs and risks. Looking forward, the Group aims to achieve better performance and steady growth in future development.

In addition, the medical aesthetics field is an important direction for the Group's future development. During the Reporting Period, over 50% of the clinical trial subjects for the Girl Needle project have been enrolled with favorable clinical results. The enrollment of all subjects is expected to be completed in July 2024, one month earlier than expected, and the completion of the clinical trial will take place in the second half of 2025. The Secret Needle project has completed preclinical animal tests and is in the stage of data analysis with continuous progress. The self-developed new materials and corresponding Class III medical devices will be applied to reducing wrinkles for medical aesthetic purposes different from the Girl Needle. The preliminary theoretical study has been completed, and the small-scale laboratory tests have been completed pending safety evaluation.

The Group cooperated with Beijing Nuokangda to develop polycaprolactone fillers for injection, namely Girl Needle. As at the date of this announcement, the clinical trial of the Girl Needle Type S has been initiated at 9 research centers including Xuanwu Hospital, Capital Medical University (首都醫科大學宣武醫院), the leading center, and over 50% of the clinical trial subjects have been enrolled with favorable clinical results. The Group cooperated with Beijing Nuokangda on the development of the Secret Needle and the polycaprolactone filling materials of the Secret Needle. The Secret Needle project has completed preclinical animal tests with continuous progress. The self-developed new materials and corresponding Class III medical devices will be applied to reducing wrinkles for medical aesthetic purposes different from the Girl Needle. The preliminary theoretical study has currently been completed, and the samples are in the stage of safety evaluation study. The Group believes that medical aesthetic products will inject new vitality into the Company's further development.

PROSPECTS AND OUTLOOK

In the first half of 2024, the continuous slowdown in China's economic growth have exerted varying degrees of pressure on industries. While policymakers have adopted monetary and fiscal stimulus measures, the effects were minimal and structural economic problems persisted. GDP growth for the first quarter was slightly higher than expected at 5.3%, yet the overall economic outlook remained uncertain, especially against the background of weak external demand.

In this context, the pharmaceutical and healthcare industry, albeit it has demonstrated a certain level of resilience, is also facing tremendous market pressure. Increased health awareness nationwide and growing demand for medical products and services have become the drivers behind the industry's development. However, the downturn in the economic environment and market uncertainties have posed challenges to the continuous growth of the industry. The Group will continue to put efforts into meeting market demands and promote social advancement through innovation and high-quality operations in such challenging environment.

The Group will keep on playing a leading role in the pharmaceutical and healthcare industry with a commitment to the provision of high-quality medical products and services. By adopting a people-oriented approach, we will stay abreast with technological development, continuously innovate business models and enhance product quality, aiming to deliver superior, safer, and more reliable medical solutions to patients and medical institutions alike.

The import process of blood products is relatively complicating and time-consuming. In the first half of 2024, despite of diminishing impact from the pandemic and the overall batch release volume increased compared to the same period last year, such volume was still under pressure due to slow recovery of the import cycle as a result of the economic slowdown and uncertainties in market demand. It is expected that the batch release volume will continue to grow in the second half of 2024 but probably at a slower rate. The Group will continue to expand the marketing network, strengthen the management of the marketing team, improve incentive systems, and promote the channel penetration. Simultaneously, the Group will further extend reach to the end market through multimodel cooperation with hospitals and pharmacies, aiming to enhance profit contribution and build core marketing capabilities while establishing a high-quality terminal promotion network.

The clinical trials for the Girl Needle project researched and developed by the Group continues and is expected to complete enrollment of all subjects in July 2024. The completion of the clinical trials and submission for registration is expected to take place in the second half of 2025. The Group will also continue to expand the Girl Needle project, conduct research and development effort for different types of Girl Needle and widen the application scope for Girl Needle. The Secret Needle project has completed the animal tests and is undergoing the process evaluation. The Chengdu Hengmeisheng Medical Polymer Materials Research and Development Center jointly established with Sichuan University will continue to incubate the newly developed materials and corresponding Class III medical devices, the target use of which is different from the existing Girl Needle and is aimed at injecting the filling into fine wrinkles on the face or other areas, and is expected to complete the validation of the production and obtain the qualified inspection report from the competent authorities by the end of 2025. The Group's research and development effort will adhere to the concept of "safety, effectiveness and reliability" as always. While launching new products with high quality, it will continue to diversify its product pipeline and fields to offer more choices for customers.

Aside from the above, the Group will continue to strengthen its internal control system, enhance risk management, and place significant emphasis on corporate social responsibility, which will be practiced throughout the Group’s governance. We are committed to providing employees with an excellent platform for professional development and creating sustainable value for Shareholders. Looking ahead, the Group will always uphold the values of integrity, professionalism and innovation, and promote the strategy of innovative development to achieve stable operations and sustained growth. We believe that through continuous improvement in management and optimization of resource allocation, the Group will become a leader in the pharmaceutical industry, creating more great values for Shareholders and society.

FINANCIAL REVIEW

Revenue

The Group recorded revenue of RMB1,526.9 million for the Reporting Period, representing an increase of RMB436.8 million or 40.1% as compared to RMB1,090.1 million in the corresponding period of 2023, which could be further analysed as follows:

	<i>Notes</i>	For the six months ended 30 June			
		2024		2023	
		<i>RMB</i>	<i>% of</i>	<i>RMB</i>	<i>% of</i>
		<i>million</i>	<i>revenue</i>	<i>million</i>	<i>revenue</i>
Sales of pharmaceutical products	1)	1,515.8	99.3	1,076.1	98.7
Medical beauty services	2)	11.1	0.7	14.0	1.3
Total		<u>1,526.9</u>	<u>100.0</u>	<u>1,090.1</u>	<u>100.0</u>

Notes:

- 1) During the Reporting Period, revenue from the sales of pharmaceutical products was RMB1,515.8 million, representing an increase of approximately 40.9% or RMB439.7 million as compared to the first half of 2023. Such increase in revenue was mainly due to the continued increase of the sales volume.
- 2) During the Reporting Period, revenue from medical beauty services amounted to RMB11.1 million, representing the revenue from the Deyang Demei Medical Beauty Hospital Limited Company (德陽德美醫療美容醫院有限公司) (“Demei”) which was acquired by the Group in May of 2022.

Cost of sales

The Group recorded cost of sales of RMB1,353.6 million for the Reporting Period, representing an increase of RMB416.0 million, or 44.4% as compared with RMB937.6 million in the corresponding period of 2023, which was in line with the increase in sales revenue.

Gross profit and gross profit margin

During the Reporting Period, the Group recorded gross profit of RMB173.2 million, representing an increase of RMB20.7 million as compared with RMB152.5 million in the corresponding period of 2023, in which the gross profit of the sales of pharmaceutical products increased by RMB22.9 million while the gross profit of medical beauty services decreased by RMB2.2 million during the Reporting Period.

As compared with the corresponding period of 2023, the gross profit margin declined from 14.0% to 11.3% for the Reporting Period. The decrease in profit margin was mainly due to the decrease of the gross profit margin of the human albumin which was primarily caused by the increase in the purchase cost due to the depreciation of the RMB against the US\$.

Other income and gains

During the Reporting Period, other income and gains of the Group amounted to RMB14.4 million, representing an increase of RMB10.2 million as compared with the corresponding period of 2023. The increase was mainly due to the increase in the service income of RMB4.5 million, the increase in the bank interest income of RMB3.1 million and the increase in the government grants of RMB1.1 million.

Selling and distribution expenses

During the Reporting Period, the Group's selling and distribution expenses amounted to approximately RMB36.5 million, representing a decrease of RMB10.6 million as compared with the corresponding period of 2023. The decrease was mainly due to the decrease in market promotion expenses.

Administrative expenses

During the Reporting Period, the Group recorded administrative expenses of RMB61.2 million, representing an increase of RMB12.8 million as compared with the corresponding period of 2023. The increase was mainly due to the increase of the research and development expenses of RMB13.4 million on the medical beauty products.

Other expenses and losses

During the Reporting Period, the Group recorded other expenses and losses of RMB8.6 million, representing a decrease of RMB0.4 million as compared with RMB9.0 million in the corresponding period of 2023. Other expenses and losses mainly represented (i) foreign exchange loss of RMB7.2 million and (ii) bank charges of RMB1.3 million.

Finance costs

During the Reporting Period, the Group recorded finance costs of RMB7.3 million, almost as the same as the finance costs of RMB7.4 million in the corresponding period of 2023.

Income tax expense

During the Reporting Period, the Group recorded income tax expense of RMB44.1 million, representing an increase of RMB20.9 million as compared with the corresponding period of 2023, which was mainly caused by the tax adjustments in prior year.

Profit for the Reporting Period

As a result of the foregoing, the Group recorded a net profit of RMB23.9 million, representing an increase of RMB4.3 million as compared with the corresponding period of 2023.

Inventories

The inventory balance amounted to RMB44.2 million as at 30 June 2024 (31 December 2023: RMB108.0 million), representing a decrease of RMB63.8 million as compared with the year-end balance of 2023. Such decrease was due to the decrease in the inventory balance of human albumin.

The Group's average inventory turnover days increased by 1 day from 9 days for the corresponding period of 2023 to 10 days for the Reporting Period.

Trade and bills receivables

The balance of trade receivables amounted to RMB688.1 million as at 30 June 2024 (31 December 2023: RMB536.0 million), representing an increase of RMB152.1 million as compared with the year-end balance of 2023. The increase was mainly due to the increase of the trade receivables of the pharmaceuticals products which was in line with the increase of their sales.

The balance of bills receivables as at 30 June 2024 was RMB12.9 million (31 December 2023: RMB4.5 million).

Prepayments, other receivables and other assets

As at 30 June 2024, the prepayments, other receivables and other assets amounted to RMB173.3 million (31 December 2023: RMB126.8 million), representing an increase of RMB46.5 million as compared with the year-end balance of 2023, mainly due to the increase of RMB44.5 million on the deposit in respect of the issuance of letters of credit and the others.

Trade and bills payables

As at 30 June 2024, trade and bills payables amounted to RMB722.1 million (31 December 2023: RMB866.6 million), representing a decrease of RMB144.5 million as compared with the year-end balance of 2023. The decrease of trade payables was mainly due to the decrease in the payables for the purchase of human albumin solution.

Other payables and accruals

As at 30 June 2024, other payables and accruals amounted to RMB36.2 million (31 December 2023: RMB53.9 million), representing a decrease of RMB17.7 million as compared with the year-end balance of 2023. The decrease was mainly due to the decrease of RMB15.3 million on the deposits received from the sub-distributors.

Borrowings

As at 30 June 2024, the Group has borrowings of RMB327.3 million in total, with details set out below:

	30 June 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Current:		
Interest-bearing bank borrowings	<u>326,857</u>	<u>240,857</u>
Non-current:		
Interest-bearing bank borrowings	<u>472</u>	<u>886</u>
	<u>327,329</u>	<u>241,743</u>

Gearing ratio

At the end of the Reporting Period, the Group's gearing ratio was calculated as follows:

	30 June 2024	31 December 2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Interest-bearing bank borrowings	327,329	241,743
Trade and bills payables	722,146	866,585
Other payables and accruals	36,223	53,862
Lease liabilities	7,303	9,658
Tax payables	30,562	26,444
Contingent consideration at fair value through profit or loss	23,859	22,078
Less: Bank balances and cash	(282,009)	(437,922)
Less: Pledged deposits	(148,651)	(220,026)
Net debt^(a)	716,762	562,422
Equity	644,704	628,052
Equity and net debt^(b)	1,361,466	1,190,474
Gearing ratio^(a/b)	52.6%	47.2%

Liquidity and capital resources

The following table sets out a condensed summary of the Group's condensed consolidated statement of cash flows during the Reporting Period:

	Notes	For the six months ended 30 June	
		2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Net cash (used in)/from operating activities	1)	(268,000)	425,785
Net cash used in investing activities	2)	(21,477)	(47,627)
Net cash from/(used in) financing activities	3)	<u>115,625</u>	<u>(188,493)</u>
Net (decrease)/increase in cash and cash equivalents		(173,852)	189,665
Effect of foreign exchange rate changes, net		17,939	2,013
Cash and cash equivalents at beginning of the period	4)	<u>437,922</u>	<u>329,144</u>
Cash and cash equivalents at end of the period	4)	<u>282,009</u>	<u>520,822</u>

Notes:

1) Net cash (used in)/from operating activities

During the Reporting Period, the Group's net cash used in operating activities amounted to approximately RMB268.0 million (six months ended 30 June 2023: net cash inflow from operating activities of RMB425.8 million), which was mainly due to the increase in trade and bills receivables amounted to RMB166.9 million and the decrease in trade and bills payables amounted to RMB167.3 million, which was partially offset by the operation profit of RMB94.1 million.

2) Net cash used in investing activities

During the Reporting Period, the Group's net cash outflow in investing activities amounted to approximately RMB21.5 million, which was decreased by RMB26.1 million as compared with the corresponding period of 2023 (six months ended 30 June 2023: net cash outflow of RMB47.6 million). The decrease was mainly due to (i) the decrease in payments for right-of-use assets of RMB19.9 million; and (ii) the decrease in the purchase of the intangible assets of RMB5.4 million.

3) Net cash from/(used in) financing activities

During the Reporting Period, the Group's net cash from financing activities amounted to approximately RMB115.6 million (six months ended 30 June 2023: net cash used in financing activities of RMB188.5 million), mainly due to the net proceeds from bank borrowings of RMB85.6 million and the decrease in the pledged deposits of RMB71.4 million.

4) The following table sets out the Group's bank balances and cash at the end of the Reporting Period:

	30 June 2024	31 December 2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Denominated in RMB	252,711	541,812
Denominated in US\$*	175,781	110,102
Denominated in HK\$*	892	2,355
Denominated in S\$*	1,276	3,679
	<u>430,660</u>	<u>657,948</u>

* US\$ stands for the United States dollar. HK\$ stands for the Hong Kong dollar. S\$ stands for the Singapore dollar.

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies. Substantial amounts of the Group's cash and cash equivalents are held in major financial institutions located in Mainland China. The Group seeks to maintain strict control over its outstanding receivables and the senior management of the Company reviews and assesses the creditworthiness of the Group's existing customers on an ongoing basis. To manage liquidity risk, the Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations. Cash and cash equivalents of the Group are mainly denominated in RMB.

Foreign currency risk

Most of the Group's assets and liabilities are denominated in RMB, except for certain items below:

- Certain bank balances are denominated in US\$, HK\$ and S\$; and
- Purchase of products from overseas suppliers and relevant trade payables are denominated in US\$.

The Group does not manage the potential fluctuation in foreign currencies by foreign currency forward and option contracts, and does not enter into any hedging transactions.

Capital expenditure

The following table sets out the Group's capital expenditure for the periods indicated:

	For the six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Purchase of property, plant and equipment	<u>15,586</u>	<u>16,564</u>
	15,586	16,564

Contingent liabilities

The Group had no material contingent liabilities as at 30 June 2024.

Pledge of assets

As at 30 June 2024, the carrying amounts of the Group's pledged assets were set out as follows:

	30 June	31 December
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Audited)
For obtaining bank borrowings		
– Buildings	74,069	68,489
For issuance of letters of credit and bills payables		
– Bank balances	<u>148,651</u>	<u>220,026</u>

SIGNIFICANT FINANCING EVENT AND USE OF PROCEEDS

2022 Placing of new Shares under general mandate

In order to capture the market opportunities of medical aesthetic products and to develop its own center to develop, produce and sell medical aesthetic products gradually, the Company entered into a placing agreement with Silverbricks Securities Company Limited (the “**Placing Agent**”) on 7 December 2021, pursuant to which the Company has conditionally agreed to issue an aggregate of 160,000,000 Shares (the “**Placing Shares**”), and the Placing Agent agreed to procure not less than six independent individuals, institutional or other professional investors (the “**Placees**”) to subscribe for, on a best effort basis, an aggregate of 160,000,000 Placing Shares at the placing price of HK\$1.29 per Placing Share, with an aggregate nominal value of HK\$16,000. The Placing Price of HK\$1.29 per Placing Share represented a discount of approximately 19.38% to the closing price of HK\$1.60 per Share as quoted on the HKSE on 7 December 2021, being the date of the Placing Agreement.

The net proceeds from the Placing, after deduction of the commission for the placing and other related expenses, amounted to approximately HK\$194.9 million, at a net price (which is calculated by dividing the net proceeds by the number of Placing Shares) of HK\$1.22. The Company intends that as to:

- (a) approximately 40% of the net proceeds of the Placing (approximately HK\$78.0 million) will be used for the development of polycaprolactone microsphere facial filler and its materials for injection; and
- (b) approximately 60% of the net proceeds of the Placing (approximately HK\$116.9 million) will be used for the strategic acquisition/development of new projects/products in the field of medical aesthetic including but not limited to acquisition of medical aesthetic organisations or investing in medical aesthetic projects and development of new medical aesthetic products.

All the conditions precedent set out in the Placing Agreement (together with its supplemental agreement entered into between the Company and the Placing Agent on 30 December 2021) have been fulfilled and the completion under the Placing Agreement took place on 3 January 2022. For details, please refer to the announcement of the Company dated 7 December 2021, 30 December 2021 and 3 January 2022.

As at 31 December 2023 the unutilised net proceeds was approximately HK\$30.8 million, and during the Reporting Period, approximately HK\$3.7 million of the net proceeds had been used in accordance with the intended use and the details are as follows:

	Approximate % of total net proceeds (%)	Net proceeds from the 2022 placing HK\$(million)	Unutilised net proceeds as at 31 December 2023 HK\$(million)	Net proceeds utilised during the Reporting Period HK\$(million)	Unutilised net proceeds as at 30 June 2024 HK\$(million)	Expected timeline for full utilization of the remaining net proceeds
Development of polycaprolactone microsphere facial filler and its materials for injection, including but not limited to development of experimental workshop, research and development equipments and factories construction investment	40	78.0	-	-	-	-
Strategic acquisition/development of new projects/products in the field of medical aesthetic including but not limited to acquisition of medical aesthetic organisations or investing in medical aesthetic projects and development of new medical aesthetic products	60	116.9	30.8	3.7	27.1	10 months
Total	100	194.9	30.8	3.7	27.1	

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2024, the Group had a total of 303 employees. For the Reporting Period, the total staff cost of the Group was RMB24.2 million (six months ended 30 June 2023: RMB24.4 million).

The Group's employee remuneration policy is determined by factors such as remuneration in respect of the local market, the overall remuneration standard in the industry, the inflation level, corporate operating efficiency and employee performance. The Group conducts performance appraisals once every year for its employees, the results of which are applied in annual salary reviews and promotional assessments. The Group considers the employee's annual bonuses according to certain performance criteria and appraisals results. Social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service quality. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or suffer from any material labor dispute during the Reporting Period.

In addition, the Company adopted a share option scheme to recognise the contribution by certain employees of the Group, and to provide them with incentives in order to retain them for their continuing support in the operation and development of the Group.

RISK MANAGEMENT

The principal risks and uncertainties identified by the Company which may have material and adverse impact on the Group's performance or operation are summarized below. There may be other principal risks and uncertainties in addition to those set out below which are not known to the Company or which may not be material now but could turn out to be material in the future.

- Failure to maintain relationships with existing suppliers – The Group currently sources its entire product portfolio from a limited number of limited suppliers, either directly or indirectly through their sales agents.
- Exchange rate fluctuation – The Group's purchase of products from overseas suppliers is denominated in US\$, and certain items of bank balances, other receivables, bank borrowings and bonds are denominated in US\$ and HK\$.
- Decrease in gross profits due to increase in cost and intensified competition.
- Prolonged delays or significant disruptions to the supply of the products.

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure of the Group's business and participates in formulating appropriate risk management and internal control measures to ensure such measures are properly implemented in daily operational management.

RELATIONSHIP WITH KEY STAKEHOLDERS

Human resource is one of the most important assets of the Group. The Group strives to motivate its employees by providing them with a clear career path as well as comprehensive and professional training courses. In addition, the Group also offers competitive remuneration packages to its employees, including basic salary, certain benefits and other performance based incentives.

The Group purchases imported pharmaceutical products from overseas suppliers, either directly or indirectly through their sales agents, and generates revenue by reselling products to hospitals and pharmacies through distributors and deliverers. On one hand, the Group provides guidance, training and support to distributors and deliverers to help them carry out more marketing and promotional activities in target fields, thereby maintaining long-term and stable relationships with them. Suppliers or their sales agents have granted the Group the rights to market, promote and manage sales channels for their products in China. On the other hand, the Group assists suppliers in entering the growing Chinese market to achieve steady sales growth, thereby maintaining long-term and stable relationships with them.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is primarily engaged in MPCM for imported pharmaceutical products, a line of business that does not have material impact on the environment. The key environment impact from the Group's operation is related to electricity, water and paper consumption. The Group is fully aware of the importance of sustainable environmental development, and has implemented the following measures to encourage environmental protection and energy conservation:

- Promoting paperless office
- Encouraging low-carbon commuting
- Ensuring reasonable energy consumption

During the Reporting Period, the Group did not incur any material cost on compliance with applicable environmental laws and regulations.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's business and operations are subject to relevant laws and regulations of the Cayman Islands, the British Virgin Islands, Hong Kong Special Administrative Region ("**Hong Kong**") and the PRC. During the Reporting Period, the Group complied with all applicable laws and regulations of the Cayman Islands, the British Virgin Islands, Hong Kong and the PRC, which would have significant impact on the Group.

CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as its own code of corporate governance.

During the Reporting Period, the Company had complied with all applicable code provisions under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUER ("MODEL CODE**")**

The Company has adopted the Model Code as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding securities transactions of the Directors. Having made specific enquiry with all Directors, all Directors confirmed that they complied with the required standard as set out in the Model Code throughout the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares) during the Reporting Period. As of 30 June 2024, the Company did not hold any of treasury shares.

INTERIM DIVIDEND

The Board resolved not to declare any interim dividend for the Reporting Period (for the six months ended 30 June 2023: Nil).

EVENTS AFTER THE END OF THE REPORTING PERIOD

Apart from those disclosed in this announcement, the Board is not aware of any material event requiring disclosure, that has taken place subsequent to 30 June 2024 and up to the date of this announcement.

AUDIT COMMITTEE

The principal duties of the audit committee of the Company (“**Audit Committee**”) include the review and supervision of the Group’s financial reporting system, the preparation of financial statements and internal control procedures. It also acts as an important link between the Board and the external auditor for determining the scope of the Group audit.

The Audit Committee, together with the management of the Company, have reviewed the unaudited condensed interim results of the Group and this announcement.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND 2024 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”) AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sinco-pharm.com), and the 2024 interim report will be published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Sinco Pharmaceuticals Holdings Limited
Huang Xiangbin
Chairman and Executive Director

Sichuan, the PRC, 28 August 2024

As at the date of this announcement, the executive Directors are Mr. Huang Xiangbin, Mr. Lei Shifeng and Mr. Huang Zhijian; and the independent non-executive Directors are Mr. Lau Ying Kit, Mr. Wang Qing, Mr. Liu Wenfang and Mr. Bai Zhizhong.